

Message Text

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ACTION EA-09

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TO SECSTATE WASHDC IMMEDIATE 3809

C O N F I D E N T I A L JAKARTA 4855

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SUBJECT: INDONESIAN-CALTEX NEGOTIATIONS

REF: (A) JAKARTA 4750, (B) JAKARTA 4665, (C) STATE 088315

1. SUMMARY: CALTEX SUBMITTED FINAL PROPOSAL APRIL 11 TO INDONESIAN GOVERNMENT. IN REPLY LETTER OF APRIL 12, MINES MINISTER SADLI INFORMED CALTEX THAT GOI "CANNOT ACCEPT" REVISED OFFER. TEXACO-SOCAL BOARD CHAIRMEN SENDING TELEX DIRECTLY TO PRESIDENT SUHARTO ASKING GOI TO DELAY ANY DECISION IN ORDER ALLOW CONSULTATION WITH STOCK-HOLDERS AND ASSESSMENT OF FULL IMPACT RECENT IRS RULING ON TAXATION OF INCOME FROM U.S. COMPANIES OVERSEAS OPERATIONS. END SUMMARY.

2. CALTEX SHAREHOLDERS' REP MARTIN PROVIDED EMBOFF WITH COPY OF CALTEX'S LATEST REVISED OFFER WHICH WAS PRESENTED ORALLY TO WIJARSO APRIL 10 AND IN WRITING TO SADLI ON APRIL 11. FOLLOWING IS COMPLETE TEXT OF CALTEX LETTER WHICH WAS SIGNED BY JULIUS TAHJA:

"DEAR PROFESSOR SADLI:

"WITH REFERENCE TO YOUR LETTER 799/M.145/1976,
DATED 31 MARCH 1976, P.T. CALTEX PACIFIC INDONESIA
AND ITS SHAREHOLDERS MOST SINCERELY SHARE THE GOVERN-
MENT'S WISH THAT WE MAY REACH A MUTUALLY ACCEPTABLE
AGREEMENT CONCERNING THE MATTERS WE HAVE BEEN DIS-
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CUSSING WITH YOU AND YOUR ASSOCIATES. FOR THIS REASON

WE SIH TO PRESENT THE FOLLWOING ELEMENTS OF THE PRO-
POSAL WHICH WE BELIEVE WILL BEST MEET THE PREVIOUSLY
STATED WISHES OF THE GIVERNMENT FOR AN AGGREGATE INCOME
GOAL AND STILL ENCOURAGE OPERATION OF THE PERTAMINA-CPI
ENTERPRISE ON AN ECONOMIC AND COMPETITIVE BASIS. WE
SINCERELY HOPE THAT YOU AND YOUR ASSOCIATES IN THE GOVERN-
MENT WILL BE ABLE TO GIVE THIS PROPOSAL YOUR CAREFUL CON-
SIDERATION WE ARE PREPARED TO DISCUSS THE DETAILS WITH YOU
OR YOUR DESIGNEES IN A GENUINE EFFORT TO ACCOMPLISH A
SOLUTION WHICH WILL BE IN THE BEST INTERESTS OF ALL CON-
CERNED. WE HAVE HAD MANY YEARS OF FINE RELATIONSHIPS
WITH THE GOVERNMENT, AND WE SINCERELY WISH TO CONTINUE
THESE RELATIONSHIPS IN A SPIRIT OF THE GREATEST
FRIENDSHIP AND COPPERATION.

"FOLLOWING IS AN OUTLINE OF OUR PROPOSAL, WHICH OF
COURSE WE SHOULD WISH TO DEVELOP WITH YOU INTO A DETAILED
AGREEMENT:

"(A) CPI WILL MAKE AN ADDITIONAL PAYMENT TO
GOVERNMENT OF \$1.00 PER BARREL ON ALL OF PERTAMINA'S
"IN KIND" LIFTINGS AND ON ALL OF THE COMPANIES'
EXPORTS TO THE EASTERN HEMISPHERE AND TO U.S. WEST
COAST, INCLUDING HAWAII, DESTINATION.

"(B) CPI WILL MAKE AN ADDITIONAL PAYMENT TO
GOVERNMENT OF \$0.50 PER BARREL ON ALL EXPORTS TO
DESTINATIONS IN THE EASTERN PART OT THE AMERICAS.

"(C) THE DEVCEMBER 30, 1974 ADDITIONAL PAYMENTS
AGREEMENT WILL BE TERMINATED AS OF THE EFFECTIVE DATE
OF THE ADDITIONAL PAYMENTS SET FORTH IN
(A) AND (B) ABOVE.

"(D) A BEST EFFORT PROGRAM WILL BE IMMEDIATELY
IMPLEMENTED WITH THE OBJECTIVE OF INCREASING CRUDE
OIL AVAILS AND LIFTINGS FROM THE PRESENT PROGRAM OF 852
MBD FROM CPI-OPERATED AREAS TO APPROXIMATELY 905 MBD SO
AS TO GENERATE SUBSTANTIALLY HIGHER REVENUES FOR THE
INDONESIAN GOVERNMENT.
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" THE FOREGOING PROPOSAL HAS BEEN DESIGNED TO PROVIDE
AN AGGREGATE INCREASE IN 1976 REVENUE TO THE
INDONESIAN GOVERNMENT OF APPROXIMATELY \$300 MILLION. WE
SINCERELY BELIEVE THIS APPROACH PROVIDED A MEANS TO
GENERATE MAXIMUM REVENUE FOR THE GOVERNMENT WHILE RE-
TAINING REASONABLE ECONOMIC AND COMPETITIVE
INCENTIVES FOR A CONTINUING AGGRESSIVE INVESTMENT PROGRAM."

3. MARTIN SAID REVISED PROPOSAL COULD PROVIDE GOI WITH \$305 MILLION IN ADDITIONAL REVENUES. \$200 MILLION WOULD COME FROM INCREASED LIFTINGS (APPROXIMATELY 330 MILLION BARRELS/YEAR) AND \$105 MILLION FROM "SHIFT" IN PER BARREL PROFITS.

4. GOI ISSUED FORMAL REPLY TO ABOVE CALTEX OFFER AFTERNOON OF APRIL 12. DECISION WAS APPARENTLY RESULT OF TWO HOUR SESSION AT PALACE ON SAME DAY ATTENDED BY SADLI, WIDJOJO, HARYONO, CENTRAL BANK GOVERNOR RACHMAT SALEH, AND MINISTER OF STATE/STATE SECRETARY SUDHARMONO. LETTER, SIGNED BY SADLI, STATES GOI "CANNOT ACCEPT" CALTEX'S REVISED OFFER AND AGAIN REITERATES THAT CALTEX SHOULD MAKE ITS QUARTERLY PAYMENT ON BASIS OF \$1/BARREL INCREASE. AS BEFORE, LETTER STATES GOI WILLING TO MAKE ADJUSTMENTS ON DISTANT MARKETS.

5. MARTIN ADVISED THAT SOCAL-TEXACO BOARD CHAIRMEN HAYNES AND GRANVILLE SENDING TELEX DIRECTLY TO PRESIDENT SUHARTO. MESSAGE WILL ASK FOR ADDITIONAL TIME BEFORE FINAL GOI DECISION IN ORDER PERMIT COMPANY TO CONSULT WITH SOCAL-TEXACO STOCKHOLDERS. TEXACO'S MEETING SCHEDULED FOR END OF APRIL AND SOCAL WILL MEET IN EARLY MAY. CALTEX ALSO ASKING FOR TIME TO STUDY EFFECT FORTHCOMING IRS RULING MIGHT HAVE ON CALTEX OPERATION. WHILE NOT CERTAIN AS TO APPLICATION THIS MIGHT HAVE FOR CALTEX'S CONTRACT OF WORK, COMPANY CLEARLY DISTURBED BY THIS ACTION AND WANTS TO EXAMINE ALL POSSIBLE IMPLICATIONS. IN RETURN FOR ADDITIONAL TIME, SOCAL-TEXACO PREPARED RETURN JAKARTA FOR ADDITIONAL DISCUSSIONS. THEY HAVE INDICATED THAT CALTEX WILL ACCEPT RETROACTIVITY TO JANUARY 1, 1976 OF ANY FINAL DECISION. ON QUESTION OF WHETHER CALTEX WILL EXCROW ADDITIONAL AMOUNT IN ITS PAYMENT ON APRIL 15, MARTIN SAID THIS MATTER WAS NOW IN HANDS OF HAYNES AND GRANVILLE WHO WILL MAKE DECISION EITHER TODAY OR TOMMORROW.

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6. COMMENT: ISSUE OF IRS RULING IS NEW FACTOR IN NEGOTIATIONS WHICH WILL CERTAINLY SURFACE AGAIN ONCE TALKS WITH PRODUCTION-SHARINF COMPANIES RESUME. THERE IS MUCH CONCERN AMONG U.S. COMPANIES AND PERTAMINA ABOUT FINAL LANGUAGE OF RULING. WMBASSY WOULD APPRECIATE DEPARTMENT'S EFFORTS TO KEEP US AS FULLY INFORMED ABOUT THIS AS POSSIBLE. REPORT ON REACTION TO IRS ANNOUNCEMENT FOLLOWS IN SEPTTEL. END COMMENT.

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